

## New forms of company co-operation and effects on industrial relations

Bromberg, Tabea

Konferenzbeitrag / conference paper

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### Empfohlene Zitierung / Suggested Citation:

Bromberg, T. (2004). *New forms of company co-operation and effects on industrial relations*. (Soziologische Arbeitspapiere, 5). Dortmund: Technische Universität Dortmund, Wirtschafts- und Sozialwissenschaftliche Fakultät, Fachgebiet Soziologie Lehrstuhl Wirtschafts- und Industriosociologie. <https://nbn-resolving.org/urn:nbn:de:0168-ssoar-109790>

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# **New Forms of Company Co-operation and Effects on Industrial Relations**

**Tabea Bromberg**

**Arbeitspapier Nr. 5 (Juli 2004)**

ISSN 1612-5355

## **Herausgeber:**

Prof. Dr. Hartmut Hirsch-Kreinsen  
Lehrstuhl Wirtschafts- und Industriesoziologie  
is@wiso.uni-dortmund.de  
www.wiso.uni-dortmund.de/LSFG/IS

Prof. Dr. Johannes Weyer  
Fachgebiet Techniksoziologie  
johannes.weyer@uni-dortmund.de  
www.wiso.uni-dortmund.de/LSFG/TS

Wirtschafts- und Sozialwissenschaftliche Fakultät  
Universität Dortmund  
D-44221 Dortmund

## **Ansprechpartnerin:**

Dipl.-Päd. Martina Höffmann, e-mail: m.hoeffmann@wiso.uni-dortmund.de

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# **New Forms of Company Co-operation and Effects on Industrial Relations<sup>1</sup>**

## **Introduction**

Starting from the reorganisation of large companies, the organisation of industrial value chains has been undergoing a tremendous change during the last years. Some Buzzwords in this context are: strategic decentralisation, outsourcing, value chain reengineering.

While the reorganisation of single companies is not in the focus of my interests, what is very interesting to me is the question if patterns of reorganisation can be recognized. If many companies change their organisation in the same way and if these changes do not remain company-internal but influence inter-company relations and the structure of whole industries, it would mean that a substantial change is happening. From my point of view as an industrial sociologist, this would be a most interesting development, arousing a lot of new questions. And one of these questions is what effects these changing forms of industrial governance will have on industrial relations.

The paper on hand looks into these questions. First, I am going to introduce the theory of "industrial governance" and the thesis that already two competing paradigms of industrial governance can be found. The second paragraph deals with my concrete subject of interest: operator models as a special form of company co-operation that is of current interest. Afterwards I am going to present some hypotheses on the possible consequences of the spread of operator models for industrial relations in Germany. Finally, I will try to connect these two strands, stressing the importance of research into the correlation between economic strategy and industrial relations.

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<sup>1</sup> This paper was originally presented at the 22<sup>nd</sup> International Labour Process Conference in Amsterdam, April 5-7 2004.

## Industrial Governance

When talking about industrial governance it is important to have in mind that in this context the term “industry” is understood in a broader sense, similar to the concept of a sector matrix in Froud et al. (1998). Unlike in industry classifications, where all companies in one group pretty much do the same thing (after all, this is what constitutes the groups), an industry in this broader sense includes not only the final producers, but also different suppliers, specialised consultants etc., all related to each other because of their relation to the final product. The interaction of these different actors is the focal point of the concept of industrial governance.

In other words: the term “industrial governance” refers to the co-ordination of sectoral production systems. One definition describes industrial governance as “the regulation of sectoral constellations of actors with regard to efficient and effective operating and production processes and with regard to the balancing of structures of power and interests in intra- and interorganisational process chains” (Jürgens et al. 2003, own translation). In other words: when we talk about industrial governance, we talk about how a certain industry “works”: how the different actors in that field are related to each other, e.g. which actors exert power over others and how they do that, what competitive strategies companies in this industry typically apply, how the companies are organised, what methods of production they use etc.

This is of course a very broad and thus challenging question. In order to provide a more structured analysis, Jürgens et al. (l.c.) distinguish four dimensions of industrial governance:

*Corporate Governance* refers to the relation between a company and its shareholders and other stakeholders, to the resulting company strategies and structures and the allocation of resources and profits.

*Governance of product markets* refers to horizontal competition, to aspects like market entrance barriers, processes of price formation and product life cycles.

*Governance of industrial relations* refers to institutions and forms of negotiation and conflict regulation in the triangle constituted by the representatives of employers and employees and the state.

*Governance of processes* refers to the forms of co-ordination and co-operation in the concrete intra- and interorganisational operating and production processes, i.e. the organisation of value chains, hierarchies, networks, teams, projects etc.

As you can see, the concept of industrial governance offers possibilities to observe developments in one branch of trade as well as to identify, contrast and compare different ways of “doing business” in different branches. This second possibility is the focal point of the current discussion on industrial governance. Some authors argue that the “old way” of doing business that was best exemplified by the automobile industry but became paradigmatic for a lot of other industries as well, is today challenged by a “new way” of doing business that became apparent in the Information and Communications Industry.

The predominating model of industrial governance since the times of Henry Ford is called the “*Chandlerian*” model or paradigm of industrial governance, drawing on the works of Alfred Chandler (1962, 1977, 1990). In the centre of the chandlerian paradigm we find giant companies dominating the whole value chain. They are diversified and vertically integrated, covering a large part of the value chain themselves. Consequently, company-internal organisation plays a key role. Companies are organised functionally/divisionally and are controlled hierarchically. They produce standardised goods for mass markets and apply accordingly standardised processes. Production is considered as a core competency, as the realisation of economies of scale and scope is a fundamental competitive factor. The strategy of vertical integration goes with competition on the basis of closed, proprietary product standards. As far as processes are not vertically integrated, usually the final producers are the ones that set the standards, thus holding the core position in the value chain.

As mentioned above, the automobile industry has long been considered the best example of the chandlerian paradigm. The final producers, the large automobile companies, control their suppliers and thus the value chain. During several decades, a lot of effort has been invested into the improvement of production processes in order to facilitate the fast and economical production of large numbers of cars.

A range of authors states that a new paradigm of industrial governance has emerged alongside this first paradigm of industrial production. Borras and Zysman (1997) named this new paradigm "*Wintelism*" (a combination of *Windows* and *Intel*), referring to its emergence in the InfoCom Industry. Companies in the InfoCom Industry relate to each other in a way completely different from the Chandlerian way. The InfoCom Industry is vertically disintegrated, i.e. a range of specialised companies compete and co-operate on the basis of modular product architectures and open standards, concentrating on their own special segments of the value chain. Therefore interorganisational relations play a more important role. In this system, the focal position in the value chain is not necessarily held by the final producers but is open to any company that manages to establish its product specifications as a standard for the whole industry (think of Windows and Intel). The ability to set standards is based on two main factors: On the one hand, the rapid generation of product innovations is decisive. If your company is the first to introduce a certain innovation to the market, chances are your specifications will become industry-wide standards. On the other hand it is important to have control over the customer interface. Your specifications can become standard simply because most customers buy your products. Consequently, research and development and marketing/sales gain importance, while production tends to be seen as ballast and is sourced out more readily. (cf. Jürgens et al. 2003)

You might argue that the two models of industrial governance described above do not correspond to the realities of the automobile and the InfoCom industry any more. And you are right. The automobile industry has been undergoing a tremendous change during the last years (cf. e.g. Jürgens 2003): In the context of the questions this paper is looking into, the most interesting development is that the automobile companies gradually call production into question and consider R&D and marketing/sales to be more important (cf. Lay 2003). And of course the InfoCom industry has been going through a severe crisis that caused major changes, too, especially in the form of concentration processes.

So the question is how the two paradigms of industrial governance are going to develop in the future. Jürgens et al. (2003) suggest three scenarios for the future of industrial governance:

The growing importance of capital markets and the general intensification of the time competition can be seen as indications for the automobile industry's increasing orientation on the wintelistic paradigm of the InfoCom industry.

On the other hand it could be possible that the model of the InfoCom industry turns out not to be sustainable. In this case, companies will increasingly return to the "established" chandlerian paradigm.

The third possibility is that both paradigms evolve in their own ways, adjusting to new developments in a way corresponding to their particular model.

If you are interested in finding an answer to the question of the future of industrial governance, you have to keep your eyes open and closely follow up on new developments in the industries in question. One of these developments is the currently growing importance of operator models. Interestingly, prominent examples of operator models can be found in the automobile industry. They can be (and are, cf. Lay 2003) seen a sign of the automobile companies' changing "attitude ": the companies do no longer consider production as sacrosanct. In this way, the study of operator models is tied directly to the discussion on the future of industrial governance.

### **Operator models as a new form of company co-operation**

Operator models were initially designed for the public sector. Burdened with growing financial problems, public bodies were on the lookout for the possibility to transfer large infrastructural projects to (consortia of) private companies without privatising them completely. Result of these considerations were models where private companies realise a certain project and operate it for a certain period of time while the public authority pays a fixed rental fee. After the expiration of this time, the ownership is transferred to the public body (one example for a project organised in this way is the construction of the Oresund-bridge between Denmark and Sweden, the setup of mobile phone networks in Brasil was also organised in this way (cf. Wiendahl/Harms 2001)).

Recently, operator models are increasingly realised in the private sector, too. At the same time, they are increasingly modified in the way that the user doesn't pay a



fixed rent any more but pays the operator per produced unit (this is called “pay on production”). This enables the user company to transfer functions to another company while at same time transferring a large part of economic risk to it, what of course makes this model attractive to potential user companies. Producers of capital goods on the other hand offer operating models because this kind of services can be a decisive marketing factor and because they want to establish a lasting relationship with their customers.

Many different variants of operator models can be realised. They can be distinguished from another by a range of criteria, one being the extent of tasks that is transferred from the user to the operator company (cf. Lay et al. 2003). What they all have in common is that one company (the operating company) operates a machine or plant for another company (the user company) - spatially and organisationally integrated into the production process of the user company (compare Wiendahl/ Harms 2001). That makes operator models a particularly close form of company co-operation.

Operator models are not yet very widespread in German industry – in a survey in 2001, 13 % of the questioned producers of capital goods declared to offer operator models to their customers (cf. Lay 2003). Nevertheless, operator models are of current interest and are said to have great potential (cf. e.g. Wildemann 2002).

Let me present one example of an operator model to you in order to illustrate this rather abstract topic. The German mechanical engineering company Eisenmann operates a production line in the Ford factory in Cologne, partly with own employees. Eisenmann had to finance the line (an investment of 80 Mio €) and is paid per car (“pay on production”). Ford does not guarantee a fixed buy-off, so if car sales decrease, Eisenmann will be directly influenced. In addition to that, Ford can terminate the contract with a period of twelve months. (cf. Zwirner 2003)

### **Possible Effects on Industrial Relations**

So far, the systematic exploration of operator models in machine and plant construction is still in its infancy (cf. Spath/Demuß 2001).

We want to research what constellations like the one described above mean for industrial relations. So far, we have developed some hypotheses about the implications of the spread of operator models for industrial relations.

We expect consequences of the spread of operator models both on the structural level of industrial relations as well as on the content level.

As structural consequences we understand changes of the well-established constellation of actors in industrial relations. As is probably well-known, collective bargaining in Germany is carried out on two levels: unions and employers' associations negotiate the general conditions, while works councils and management negotiate the more specific conditions on company level. In the case of operator models, a second management, a second works council and possibly a second union become involved. Not only the managements of the two companies involved need to co-ordinate with another. We expect that e.g. the works councils of the two companies will at least want to exchange ideas, perhaps to develop a joint position and strategy. It may also become necessary that the works council of the operating company has to get in touch with the management of the user company, e.g. when it comes to work conditions. This means that work relations become more complex, and new forms of co-ordination on and above company level have to be found.

Co-ordination becomes necessary as different regulations collide. In a co-operation as close as an operator model, this may happen quite frequently. If you just buy parts from another company, you usually don't care how their production is organised. But if employees from another company have to be integrated into the production process of your company, these aspects become highly relevant. This applies particularly to:

**Working-time-regulation.** It is quite obvious that the synchronisation of working times is an organisational necessity in order to facilitate the unobstructed flow of the production process.

**Work organisation and corresponding forms of personnel structures.** It will be interesting to investigate in how far the production process of the user company makes a certain form of work organisation obligatory for the operating company or in how far the operating company is able to realise "island solutions" in its own domains. The question is not only if "island solutions" are feasible, but if they are

sensible: if they create constant sources of conflict, setting up differing forms of work organisation is no sensible course of action.

**Pay.** Potential conflicts also lurk in the area of pay. You can expect that unequal conditions of pay cause dissatisfaction in employees working literally side by side. This could go so far that an adjustment of pay systems becomes desirable.

However, necessary co-ordination can be hampered by different ways of handling conflicts established in different companies and branches of trade. For example, works councils use their rights in very different ways: some are very co-operative while others stress the conflict between employers and employees. The same can be said about branches: The union and the employers' association in the German metal industry for example traditionally emphasise the conflicting nature of their interests and goals, while the social partners in the chemical industry stress their good and trustful co-operation. When actors with such different self-conceptions meet and need to co-operate, it can be expected that this co-operation is not going to work without friction.

Works councils – and unions as well – can also be distinguished by the strength of their bargaining position and the resources they have at their disposal. The aspect of bargaining power is also likely to influence the co-operation of works councils and unions respectively and thus has to be taken into account.

Necessary co-ordination can also be hampered by different structures of collective agreements. For example differing wage components and differing systems of activity assessment make comparisons and of course co-operation extremely difficult.

Another item on our research agenda are possible effects of the spread of operator models on the coverage of collective representation of interests: One consequence of the application of operator models is that functions tend to be transferred from larger to smaller companies. It is a well-established fact that in Germany, both unions and works councils have to face more difficulties in smaller companies. The smaller a company is, the more infrequent it has got a works council (cf. Müller-Jentsch/Ittermann 2000). The unions on the other hand have to invest more work to reach and to attend to (possible) members scattered in smaller companies (cf. Artus 2001, p. 236).

Another possibility is that companies found subsidiary companies especially for the purpose of offering operator models and that they use this step as an opportunity to turn their backs on employers' associations. Founding subsidiary companies for offering product-related services is suggested as an option by some authors (cf. Lay 1998). And responsible for the currently decreasing membership numbers of the German employers' associations are not so much disappointed companies leaving the associations but newly founded companies not joining them (cf. Müller-Jentsch 1997, p. 180).

Both developments described above could further weaken the already enfeebled German system of industrial relations by amplifying those parts of the economy without collective representation of interests.

### **Final remarks**

There are two main objectives of our further research: The first and direct objective is to gain insights into how industrial relations handle changing forms of company co-operation as exemplified by operator models. Industrial relations not only in Germany currently have to face a lot of challenges. How the well-established systems adapt to changing conditions is at present one of the major questions of industrial sociology.

Our second and more far-reaching objective is to contribute to the discussion on industrial governance. As Jürgens et al. (2003) stress, both Chandler and the authors of the Wintelism-concept do not pay much attention to industrial relations and their relevance in connection with industrial upheavals and forms of governance. Jürgens et al. call for an integration of these aspects – and this is where we want to make a contribution. As prominent examples of operator models can be found in the automobile industry, we are confident we will be able to gain insights into the current developments in this industry and will thus be able to contribute to the debate on changing forms of industrial governance.

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